

SphereInvest | GROUP

SPHEREINVEST GLOBAL CREDIT STRATEGIES (UCITS) FUND

Weekly Performance Period: 28th March to 30th April 2014

Class F (USD): MTD return: 1.10% YTD 2014 return: 3.92% NAV per Share: 118.21

Class D (EUR): MTD return: 1.09% YTD 2014 return: 3.82% NAV per Share: 117.42

Portfolio and Market Commentary:

Global credit markets continued being supported by “goldilocks” conditions during April: although macro data across large countries remained mixed, the global recovery appears solid enough to support investors’ risk appetite; expectations that major central banks will keep a dovish stance in the face of persistent economic slack; finally, with visible downside risks arguably at their lowest for the past seven years, geopolitical threats in Ukraine and lingering concerns about the state of the Chinese economy appear to have merely translated into a deeper bid for safe-haven assets, without derailing the calm in global credit markets.

In this context, investors have continued re-assessing assumptions most widely held at the start of the year and unwind correspondingly crowded positions – notably underweight long duration and EM assets, allowing both segments to outperform further during the month. While EM Sovereign markets have benefited most from that technical correction, returning 5.42% year-to-date, EM HY corporate markets have followed at some distance, returning 1.39% and 2.98% during April and year-to-date, respectively (*).

European credit markets performed solidly too, buoyed by encouraging economic signals - the Eurozone having arguably been the only region where economic data has surprised positively since the start of the year - and a few landmark events, notably the return of the Greek Sovereign to private capital markets, the pending exit of Portugal from its bailout programme, as well as record and well-performing transactions brought by private issuers Wind and Altice/Numericable. For the month, Euro HY returned 1.06%, bringing year-to-date returns to 4.06%.

The performance of US high yield markets remained strong, albeit more subdued than in previous months, reflecting both full valuations, the overhang of struggling equity markets as well as, ultimately, the diverging paths of respective central banks: although the most recent FOMC meeting confirmed a dovish near-term stance, the Fed remains on a tightening (or less accommodative) trajectory, while the ECB has remained at pains to “signal” its willingness to engage in further easing, including through non-conventional measures. US HY markets still returned 0.7% during the month, bringing year-to-date total returns to 3.7%.

Credit markets appear to have reached equilibrium, albeit one largely explained by the collapse of volatility in core rates, which itself could prove transitory. The lack of volatility is feeding a powerful self-fulfilling effect by encouraging buy-and-hold carry strategies, justifying virtually any valuation (as risk-adjusted measures using historical volatility mechanically improve) and discouraging profit taking. Although we recognize that regimes of low volatility can last for extended periods of time – as the period leading to 2007 illustrates – we do not have much conviction about the factors which are currently keeping rates in such a tight range, in particular in the US. While they may reflect genuine fundamentals, such as a structural decline in nominal growth, they may also reflect the scale of investor repositioning year-to-date, which could eventually – and possibly sooner than expected – run its course.

Performance of the fund:

The fund's best performing positions included the first lien bonds of Global Ship Lease, the container shipping company; the position was opened in March as we believed the bonds valuation overly discounted the industry's still cloudy outlook, in particular given the "creditor-friendly" characteristics of the company, including its charter-like revenues and strong backlog. Credito Real, the Mexican payroll lender, continued performing well after the company released another set of strong results, and reached our fair value target, allowing us to reduce what had been the largest position of the fund to date. Our position in Lowell Group secured notes was the worst performing position during the month, and appeared to suffer from investors' re-allocating cash from short-dated papers into longer duration ones, in the absence of fundamental news flow. The second worst performing position was our position in Atento, which appeared to suffer from profit-taking amidst limited liquidity. The company confirmed it was filing for IPO in early May, however, triggering a sharp upward repricing of the bonds after the current performance period.

(*) Bank of America Merrill Lynch indexes IG00, EMHB, HP00 and H0A0

Portfolio Composition:

	Average Rating	Market Value (%)	Price	Mod. Dur.	Yield	Carry	Z-Spread	PnL Contrib.
SphereInvest Global Credit Strategies								
	BB-	100 %	105.4	4.3	5.7 %	6.4 %	427	100 %
Largest 5 Positions								
	B+	20 %	107.7	5.3	6.5 %	7.5 %	511	19 %
Regions								
Developed Europe	B	29 %	107.6	5.1	6.4 %	7.4 %	486	19 %
Latin America	BB	23 %	104.6	4.9	6.7 %	7.6 %	492	28 %
Eastern Europe / CIS	B+	11 %	107.7	4.9	6.1 %	7.1 %	481	25 %
North America	B+	11 %	104.8	5.4	7.0 %	7.6 %	484	10 %
Cash	AA	9 %						0 %
Asia ex-Japan	BB-	9 %	102.0	4.7	8.0 %	8.4 %	632	15 %
Treasury Bills	AAA	6 %	100.0	0.2	0.0 %	0.0 %	0	0 %
Middle East / Africa	B+	2 %	100.7	5.1	6.5 %	6.6 %	438	3 %
Corporates/Financials								
Corps	B+	63 %	105.6	5.3	6.8 %	7.5 %	511	82 %
Financials	BB-	22 %	106.3	4.3	6.4 %	7.6 %	469	18 %
Cash	AA	9 %						0 %
Treasury Bills	AAA	6 %	100.0	0.2	0.0 %	0.0 %	0	0 %
Sectors								
Media	B+	17 %	105.9	5.8	5.9 %	6.6 %	436	27 %
Consumer Finance	BB-	13 %	106.2	4.6	6.6 %	7.5 %	478	8 %
Telecommunications	B+	11 %	104.7	4.7	7.2 %	7.8 %	523	8 %
Real Estate Management & Development	BB	11 %	103.8	6.2	7.6 %	8.1 %	587	18 %
Commercial Banks	BB	9 %	106.6	3.8	6.1 %	7.6 %	453	10 %
Cash	AA	9 %						0 %
Treasury Bills	AAA	6 %	100.0	0.2	0.0 %	0.0 %	0	0 %
IT Services	CCC+	5 %	109.8	4.2	6.7 %	8.0 %	553	3 %
Oil, Gas & Consumable Fuels	B+	5 %	104.7	5.0	6.2 %	6.8 %	416	5 %
Food Products	B	5 %	106.1	3.9	7.3 %	8.1 %	566	6 %
Environmental Services	B+	3 %	111.6	4.8	6.2 %	7.6 %	513	3 %
Utilities	B	3 %	100.4	7.3	6.2 %	6.2 %	446	1 %
Transportation Infrastructure	B	3 %	104.7	3.8	8.8 %	9.6 %	716	6 %
Chemicals	-	0 %						1 %
Auto Components	-	0 %						2 %

	Average Rating	Market Value (%)	Price	Mod. Dur.	Yield	Carry	Z-Spread	PnL Contrib.
Sectors (contd.)								
Building Products	-	0 %						1 %
Airlines	-	0 %						1 %
Ratings								
B+	B+	20 %	105.2	4.4	7.0 %	7.6 %	544	29 %
BB-	BB-	17 %	106.9	4.8	6.1 %	7.2 %	450	12 %
BB	BB	17 %	104.3	5.5	6.8 %	7.6 %	506	24 %
B	B	15 %	104.7	4.9	6.9 %	7.5 %	534	20 %
AA	AA	9 %						0 %
BB+	BB+	6 %	105.5	5.9	6.4 %	7.0 %	414	6 %
AAA	AAA	6 %	100.0	0.2	0.0 %	0.0 %	0	0 %
B-	B-	4 %	109.4	5.1	6.6 %	7.8 %	440	4 %
CCC+	CCC+	4 %	111.8	4.2	7.3 %	8.8 %	628	2 %
NR	-	2 %	101.3	8.4	5.9 %	6.0 %	339	2 %
BBB-	-	0 %						1 %
Currencies								
USD	BB	57 %	104.0	4.0	5.6 %	6.2 %	413	59 %
EUR	B+	32 %	106.5	4.8	5.4 %	6.1 %	436	38 %
GBP	B+	11 %	110.0	4.4	6.9 %	8.2 %	480	3 %

Performance Table since Inception:**Class F (USD)**

	Jan	Feb	Mar	April	May	Jun	July	Aug	Sep	Oct	Nov	Dec	YTD
2012							0.15%	0.72%	0.78%	2.11%	1.24%	1.72%	6.90%
2013	0.97%	0.11%	0.54%	1.64%	-0.04%	-2.16%	1.11%	-0.06%	1.70%	1.66%	0.14%	0.67%	6.40%
2014	0.84%	1.08%	0.84%	1.10%									3.92%

Class D (Euro)

	Jan	Feb	Mar	April	May	Jun	July	Aug	Sep	Oct	Nov	Dec	YTD
2012							0.20%	0.66%	0.70%	2.04%	1.20%	1.62%	6.59%
2013	0.87%	0.12%	0.54%	1.54%	-0.06%	-2.21%	1.16%	-0.07%	1.67%	1.66%	0.13%	0.65%	6.11%
2014	0.85%	1.06%	0.77%	1.09%									3.82%

Past Performance is no guarantee of future results.

Performance figures are net of all fees.

Disclaimer:

Important Information: Issued by SphereInvest Group Limited ("SphereInvest"), which is authorized and regulated by the Malta Financial Services Authority. This publication constitutes an investment advertisement and is only being provided for illustrative purposes. It should not be construed as investment advice or an offer, invitation or recommendation to transact in any of the investment instruments mentioned in it. Potential investors should seek their own independent financial advice. Every investment involves risk, especially with regard to fluctuations in value and return. If the currency of a financial product is different from your reference currency, the return can increase or decrease as a result of currency fluctuations. The value of investments and the income therefrom can go down as well as up. Past performance is not a guide to future returns. Performance figures are shown net of all fees and expenses. The information in this publication has been compiled from sources believed to be reliable, however, no warranty, expressed or implied, is given as to its accuracy or completeness. Furthermore, neither SphereInvest nor its directors, officers or employees will be responsible for any loss or damage that any person may incur resulting from the use of this information.